

State of California

M E M O R A N D U M

TO: PERSONNEL MANAGEMENT LIAISONS **DATE:** August 18, 2004
REFERENCE CODE: 2004-040

THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:

Budget Officers
Employee Benefit Officers
Personnel Officers
Personnel Transactions Supervisors

FROM: Department of Personnel Administration
Savings Plus Program

SUBJECT: Mandatory Alternate Retirement Program for New State Miscellaneous and Industrial Employees Exempted from contribution to the California Public Employees Retirement System

CONTACT: Savings Plus Program
(916) 324-2909, CALNET 8-454-2909
FAX: (916) 327-1885

Senate Bill 1105, Chaptered August 11, 2004 amended and added sections to the Government Code as it relates to the California Public Employees' Retirement System (CalPERS) to establish an Alternate Retirement Program for certain new State employees. The new rules took effect August 11, 2004.

The following is information regarding the new mandatory Alternate Retirement Program (ARP) for new state miscellaneous and industrial employees. The ARP will provide a retirement savings plan in lieu of a retirement benefit under CalPERS during the first 24 months of an ARP member's state employment. The ARP will be administered by the Department of Personnel Administration's (DPA) Savings Plus Program (Savings Plus). This memo is intended to provide you with information about the ARP and assist you in processing transactions for new hires. Additional details about ARP will be issued via an upcoming PML as well as on the DPA Web site. The formal ARP document filed with the Internal Revenue Service will govern the terms of ARP.

Senate Bill 1105 did *not* amend CalPERS membership eligibility requirements or other CalPERS benefits, such as health, dental, death, and disability benefits. Moreover, Senate Bill 1105 did not amend the Part-time, Seasonal, and Temporary Employees Retirement Program (PST Program) eligibility requirements. An employee is subject to ARP contributions only when they qualify for CalPERS membership and if first hired on or after August 11, 2004. Refer to the *CalPERS State Handbook* for membership eligibility and benefit information.

ARP Overview

Effective August 11, 2004, these new eligible employees will not contribute to CalPERS for a period of 24 months after their eligibility date. Instead, these employees will contribute to ARP for this period allowing them to save for retirement. There will be no employer contribution to either plan during this period of time. CalPERS membership will be established even though no contributions will be reported to or service credit earned during the ARP period.

On the first pay period of the month following 24 months from the employee's CalPERS qualification date, both the employee and employer must begin making contributions to CalPERS and contributions to the ARP will cease. Non-qualifying pay periods do not impact this 24 month period. A future SCO personnel letter will provide instructions on how to process the change in retirement contributions.

ARP Eligible Employee

ARP is mandatory for a new state employee whose employment meets all the following conditions:

- Included in the definition of "state employee" under Government Code Section 19815,
- Qualify for CalPERS membership as a state miscellaneous or state industrial member; and
- First employed by the state on or after August 11, 2004.

Employees Excluded from ARP

- A person who is employed (or reemployed) after August 11, 2004, and is a current or prior member of CalPERS.
- A person first employed by the state on or after August 11, 2004, but whom, within the prior six months, was a member of a CalPERS' reciprocal retirement system. (Refer to the CalPERS *State Handbook* for a current listing of CalPERS' reciprocal retirement system members.)
- A person employed on a Visa and not coordinated with Social Security (non-resident aliens working under the provisions of a F-1, J-1, M-1, or Q-1 visa and performing services to carry out the purpose for which they were admitted to the United States).
- A person employed by the California Highway Patrol as a cadet at the department's training school established pursuant to Section 2262 of the Vehicle Code.
- Employees who are members of the Judges' Retirement System, the Judges' Retirement System II, the Legislators' Retirement System, the State Teachers' Retirement System, or the University of California Retirement Plan.
- Employees of California State University and the state legislative and judicial branch.
- Persons appointed as State Safety, State Patrol, or State Peace Officer/Firefighter.

Refer to Attachment 1, *ARP Eligibility Questions & Answers*, and Attachment 2, *ARP Eligibility Worksheet*, for additional clarification. Questions regarding eligibility requirements should be directed to CalPERS at (888) 225-7377.

ARP Contribution Amount

The contribution to ARP will be 5% of compensation in excess of \$513 of the employee's monthly pre-tax pay. ARP contributions will appear on the employee's payroll earnings statement and direct deposit statement as 'Retirement.' This contribution will be deposited into a 401(a) Plan administered by Savings Plus. In addition, ARP participants will receive an annual ARP statement for the period ending June 30 of each year.

Transaction Processing

Departments will be responsible for determining and documenting the correct retirement ID account code on the employee's employment history records. The following are the three new retirement account codes established for ARP.

Code Definition

TK	CalPERS miscellaneous member subject to Social Security and Medicare
TP	CalPERS industrial member subject to Social Security and Medicare
TR	CalPERS industrial member subject to Social Security and Medicare at Porterville Developmental Center (CBU 18)

SCO will release a personnel letter in the near future with further information.

Administrative Fee

Employers will be assessed a monthly fee to cover the cost to administer the ARP. The fee amount will be determined by applying a per employee fee (to be determined) and multiplying the fee by the number of employees participating in the program that month. The per employee fee and the mechanism for collection will be communicated in a future PML.

Enrollment and Allocations

All eligible employees will be automatically enrolled in a 401(a) Plan upon receipt of the employee's first ARP contribution. The account will be established using personnel information from the SCO Payroll and Personnel System or the California Fair Services Authority (for Cal-Expo and District Agricultural Associations). This will include the employee's Social Security number, name, address, and date of birth.

The ARP contributions will be administered by Savings Plus and will be deposited in the Dwight Asset Management Stable Value Fund, or another stable value fund as determined by Savings Plus, for the duration of the employee's participation in the program. The employee will not be able to transfer assets to a different investment choice or change the amount of their contribution.

Voluntary Deferrals to the 401(k), 403(b), and/or 457 Plans

Employees participating in ARP can still voluntarily enroll in the 401(k) Plan, 403(b) Plan, and/or 457 Plan and defer up to the annual maximum limits if they so choose.

ARP Account Closure

Employees who participate in ARP will be able to make an election to purchase service credit or receive lump sum distribution with their ARP assets. The election period begins the first day of the 47th month after their CalPERS membership qualification date and ends no later than the last day of the 49th month. If the employee does not make an election the ARP assets will be automatically transferred to a Savings Plus 401(k) Plan established for the employee. Refer to Attachment 3, *ARP Account Closure Options*, for additional information.

Contact Information

We recognize you may have additional questions regarding ARP. Savings Plus has specially trained customer service representatives to assist personnel offices for the next few months. Please call (916) 324-2909, Monday through Friday between 8:30 a.m. and 4:00 p.m. If a representative is not available please leave a message. Your call will be returned as soon as possible.

Lura Franzella, Administrator
Savings Plus Program

**Alternate Retirement Program (ARP)
Eligibility Questions & Answers**

Single Appointment Scenarios

Scenario 1: John S. was first hired August 20, 2004, as a permanent, full-time Office Assistant. John is eligible for membership in CalPERS as a miscellaneous employee.

Question: Does John contribute to ARP or CalPERS?

Answer: John is subject to ARP because his first hire date was after August 11, 2004.

Scenario 2: Vincent T. separated state employment October 7, 2003, and was re-hired August 10, 2004. When Vincent separated, he left his retirement funds on deposit with CalPERS.

Question: When Vincent is re-hired do his retirement contributions go to ARP or CalPERS?

Answer: Vincent has current membership with CalPERS. After rehire, his contributions will go to CalPERS.

Scenario 3: Janet M. separated state employment January 15, 2001, and was re-hired August 25, 2004 as a permanent employee. When Janet separated she withdrew her funds from CalPERS.

Question: When Janet is re-hired, do her retirement contributions go to ARP or CalPERS?

Answer: Janet was first hired prior to the ARP effective date; therefore, she will be a contributing member to CalPERS, even though she withdrew her funds from CalPERS.

Scenario 4: Bob C. was first hired August 12, 2004, and subject to ARP contributions. Bob separates employment February 6, 2005, but is re-employed June 30, 2005.

Question: When Bob is re-employed in June 2005 will his retirement contributions go to ARP or CalPERS?

Answer: Bob's retirement contributions must go to ARP for 24 months following his first hire date, or in this case through August 31, 2006. He will begin contributing to CalPERS starting September 1, 2006.

Concurrent Appointment Scenarios

Scenario 5: Nancy S. is first hired on August 16, 2004, as a nurse, half-time at the Department of Corrections (CalPERS safety member). Subsequently, Nancy is concurrently hired on February 1, 2005, as a nurse, half-time at the Department of Health Services (CalPERS miscellaneous member).

Question: Are Nancy's retirement contributions subject to ARP or CalPERS?

Answer: Nancy is a contributing member of CalPERS in her appointment with Department of Corrections because as a safety member she is not subject to ARP. The miscellaneous appointment with Department of Health Services would be subject and contributing to CalPERS and not subject to ARP because she was a contributing member of CalPERS prior to her appointment with the Department of Health Services.

Scenario 6: Sally B. is first hired on September 10, 2004, as a nurse, half-time by the Department of Mental Health (CalPERS miscellaneous member). On March 1, 2005, Sally is concurrently appointed as a nurse, half-time by the Department of Corrections (CalPERS safety member).

Question: Are Sally's retirement contribution subject to ARP or CalPERS?

Answer: Sally's September 2004 appointment with the Department of Mental Health is subject to ARP. Retirement contributions from this position will go to ARP for 24 months, or through August 2006. Sally's appointment with the Department of Corrections is not subject to ARP because she is a safety member. Retirement contributions from this appointment go to CalPERS.

PST Program Scenarios

Scenario 7: Jane J. was first hired August 25, 2004, as a part-time Program Technician. Jane is not eligible for membership in CalPERS because she is appointed less than half-time.

Question: Does Jane contribute to ARP?

Answer: Jane is not eligible for membership in CalPERS; therefore, she is not eligible for ARP. Jane is, however, subject to the Part-Time, Seasonal, and Temporary Retirement Program (PST Program). *Note:* Once Jane works enough hours to become eligible for CalPERS, she will be subject to ARP and begins making ARP contributions.

Scenario 8: Ken A. was first hired March 1, 2004, as a seasonal clerk, not eligible for CalPERS, but enrolled in the PST Program. Ken was appointed as a permanent, full-time Office Assistant on September 7, 2004, and newly eligible for membership in CalPERS.

Question: Is Ken's September 7, 2004, appointment subject to ARP?

Answer: No. Ken's first hire date was prior to ARP effective date. He is not subject to ARP. Ken's retirement contributions are to CalPERS.

Reciprocity System Scenarios

Scenario 9: Susie Q. was first hired as a permanent full time state employee on August 25, 2004. She indicated on her application that she previously worked for Orange County (Orange County has its own retirement system the "Orange County Retirement System").

Question: Are Susie's retirement contributions subject to ARP or CalPERS?

Answer: The appointing agency needs to ask Susie if she came to her state position from employment subject to a reciprocal retirement system within the last six months. If the answer is yes, then the appointing agency should contact the previous employer to verify her separation date and that the employment was subject to the reciprocal system.

If Susie separated from her prior employer and was contributing to the reciprocal system for that employment within six months of qualifying for CalPERS membership, she would contribute directly to CalPERS. If the separation was more than six months prior to qualifying for CalPERS, Susie would contribute to ARP.

ALTERNATE RETIREMENT PROGRAM (ARP) ELIGIBILITY WORKSHEET

This form should be completed for each new employee and retained in the employee's personnel file.

Do not mail completed form to DPA or CalPERS.

Department Name: _____

Section 1: Employee Information

Name: _____

Section 2: CalPERS Membership Category

☐ Miscellaneous ☐ Industrial ☐ Safety ☐ State Patrol ☐ POFF

If you checked Miscellaneous or Industrial complete this form. The employee may be subject to ARP. If you have checked Safety, State Patrol, or POFF do not complete this form. The employee is not subject to ARP.

Section 3: Appointment Information

(1) Is the first hire date prior to August 11, 2004?

☐ Yes

☐ No

If Yes, do not complete this form. The employee is not subject to ARP. If No, answer the following questions.

(2) Does the employee have prior State employment?

☐ Yes

☐ No

If Yes, was the employee a member of CalPERS?

☐ Yes

☐ No

If the answer is Yes to the prior questions, do not complete this form. The employee is not subject to ARP. If the answer is No to either portion of Question (2) the employee may be subject to ARP. Continue completing this form.

Section 4: Prior Employment not Subject to ARP

Name of Employer/Agency: _____

(1) Is the employee a member of CalPERS, Judges' Retirement Systems (I/II), Legislators' Retirement System, CalSTRS, or the UC Retirement System?

☐ Yes

☐ No

If the answer is Yes, do not complete this form. The employee is not subject to ARP. If the answer is No, answer the following question.

(2) Is the prior employer a CalPERS reciprocal retirement system?

☐ Yes

☐ No

If the answer is Yes, and the employment was within the six months prior to the CalPERS membership date the employee is not subject to ARP. If the employment was more than six months prior to this date the employee may be subject to ARP. Continue completing this form. If the answer is No, continue completing this form.

For a listing of the reciprocal retirement systems please refer to the *CalPERS State Handbook* or the booklet *When You Change Retirement Systems* (PERS-PUB-16). To see if the employee was a previous member of CalPERS, refer to ACES under the "Participant Inquiry Screen". If you need additional assistance contact CalPERS at 888-225-7377.

Section 5: Non-resident Alien

Is the employee a non-resident alien working under the provisions of a Visa F-1, J-1, M-1, or Q-1, and not coordinated with Social Security?

☐ Yes

☐ No

If the answer is Yes, do not complete this form. The employee is not subject to ARP. If No, continue completing this form.

Section 6: The employee is subject to ARP: Retirement Identification Codes

Departments are responsible for establishing the correct retirement ID code on the employee's employment history records. The following codes apply to employees subject to ARP.

Code Definition

TK CalPERS miscellaneous member subject to Social Security and Medicare

TP CalPERS industrial member subject to Social Security and Medicare

TR CalPERS industrial member subject to Social Security and Medicare at Porterville Developmental Center (CBU 18)

Authorized Employer Signature _____

Date _____

**Alternate Retirement Program (ARP)
Account Closure Options**

Effective August 11, 2004, eligible employees will not contribute to CalPERS for a period of approximately 24 months after their first hire date. On the first pay period of the month following 24 months from the employee's CalPERS qualification date, both the employee and employer will begin making contributions to CalPERS and contributions to ARP will cease. A future SCO pay letter will provide instructions on how to process the change in retirement contributions.

Beginning no earlier than the first day of the 47th month after CalPERS membership qualification date and not later than the last day of the 49th month, the employee will have an election period in which to make a decision regarding the assets in their ARP account. Instructions for electing an option will be provided in a future PML.

The employee can elect one of the following options:

Option 1: Purchase CalPERS service credit earned during the 24 month period they were not contributing to CalPERS. The total assets residing in their ARP account would be transferred to CalPERS to fund the service credit. The State would fund the portion of the liability not paid for by the employee's ARP account.

Note - Future purchase of service credit. The employee will be eligible to purchase CalPERS credit for employment subject to the ARP period at any future date as long as they are still a CalPERS member. However, the employee would be responsible for the total cost of the additional credit, offsetting any employer liability.

Option 2: Elect a full distribution (lump sum) of ARP assets, which may be subject to early withdrawal penalties. Payment will be issued no earlier than the first day of the 49th month.

Default: Should the employee not make an election, as described above the employee's ARP assets will be transferred into a Savings Plus 401(k) Plan account established for the employee, or deposited into an existing Savings Plus 401(k) Plan account, if one exists. This transfer would occur within approximately 90 days after the end of the three-month election period.